

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

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SUBJECT: Fiduciary Insurance

ITEM NUMBER: 11

ATTACHMENT(S): 1

ACTION:

DATE OF MEETING: May 2, 2002

INFORMATION: X

PRESENTER (S): Chris Waddell/Ron Mealor

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CalSTRS has been required to purchase Fiduciary Insurance for “all members of the board and its officers and all staff of the investment division who are authorized to invest funds ... in an amount determined by the board to be prudent” since 1985. Section 22259(b) of the Education Code.

For the Board’s information Attachment 1 sets forth a brief history of the System’s experience with fiduciary insurance as far back as we have documentation.

In accordance with the mandate that the System must purchase fiduciary insurance, we have renewed our fiduciary liability insurance policy and received a binder upon payment of the premium. It provides the System protection against liability for breaches of fiduciary duty by “any past, present or future trustee or employee of the System.” The policy is for the period from March 1, 2002 to March 1, 2003, has coverage of \$25 Million with a deductible of \$250,000 for each indemnifiable loss. The deductible amount includes defense costs. There is no deductible for non-indemnifiable losses. The premium for the policy is \$260,000 including the right of fiduciaries to purchase the waiver of the right of recourse against them, which is discussed below.

As explained in the letter regarding the waiver of the Right of Recourse sent out in March, further requirements are found in Government Code section 7511(a). This provision provides that a public retirement system may purchase fiduciary liability insurance for its fiduciaries or for itself if the policy permits recourse by the insurer against the fiduciaries in case of a breach of a fiduciary obligation by a fiduciary. Under a right of recourse the insurance company may recover the amount of a loss paid under a claim from the individual who breached his or her fiduciary duty. The new policy has a Right of Recourse provision.

At the same time, however, Government Code section 7511(b) permits a fiduciary covered under the policy to pay a small premium to waive the right of recourse against him/her. The premium to purchase insurance must be paid by the fiduciary from his or her own funds. The System may not purchase the waiver for the fiduciary. Under the new policy the premium for waiver of the right of recourse is \$50 per person. Separate notice of the opportunity to purchase the waiver was provided to all fiduciaries.

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In order to determine how our fiduciary insurance compares to other public pension funds the Legal Office conducted an informal survey of other retirement system through the National Association of Public Pension Attorneys (NAPPA) of which CalSTRS is a member. The responses are set forth in Attachment 2. Based on the responses received it does not appear that the System's policy amount is out of line with other comparable public retirement systems.

Pursuant to requests by the Treasurer and the Controller we requested a quote for additional coverage by St Paul but it was rejected. Their only offer was a 5% premium reduction for a \$500,000 deductible under the present policy. We have completed an application for quotes for additional coverage of \$25 Million and \$75 Million through Chubb Insurance Co. who has carried our insurance at times in the past. Those quotes will be provided at the Board meeting if received in time.

### History of Fiduciary Insurance at CalSTRS from 1994 to Present

Period of Coverage	Policy #	Carrier	Broker	Policy Amount	Deductible each loss	Policy Premium
11/13/94 - 11/13/95	444-07-12	National Union	Near North	\$25 Million	\$500,000	\$252,500
11/13/95-11/13/96	482-12-38	National Union	Near North	\$25 Million	\$500,000	\$245,000
12/01/96 - 12/01/97	484-42-42	National Union	Near North	\$25 Million	\$250,000	\$245,000
12/01/97- 12/01/98	Renewal	National Union	Near North	\$25 Million	\$100,000	\$245,000
12/01/98 - 03/01/00	8156-23-69	Chubb Ins. Co.	Near North	\$25 Million	\$100,000	\$261,820*
03/01/00 - 03/01/01	8156-23-69	Chubb Ins. Co.	Near North	\$25 Million	\$100,000	\$220,500
03/01/01 - 03/01/02	594CM0257	The St Paul	Driver Alliant	\$25 Million	\$100,000	\$217,000
03/01/02 - 03/01/03	<i>Renewal</i>	<i>The StPaul</i>	<i>Driver Alliant</i>	<i>\$25 Million</i>	<i>\$250,000</i>	<i>\$260,000</i>

\* Pro rated amount based on an annual premium of \$210,000.

## Fiduciary Insurance Survey - March 2002

<u>Name of Fund</u>	<u>Fiduciary Insurance</u>	<u>Policy Amount</u>	<u>Deductible each loss</u>	<u>Policy Premium</u>	<u>Assets*</u>
Baltimore Retirement Systems	No	N/A	N/A	N/A	Not Available
CalSTRS	Yes	\$25 Million	250,000.00	\$260,000.00	\$95.5 Billion
CalPERS	Self Insured	\$20 Million Reserve	N/A	N/A	\$143.8 Billion
City of San Jose	Yes	\$1 Million	\$10,000.00	\$5,500.00	\$250 Million
Colorado PERA	Yes	10 Million	Not Available	Not Available	\$26.9 Billion
Colorado Fire and Police	Yes	\$10 Million	Not Available	Not Available	\$2.3 Billion
Florida Municipal Plans (Various)	Yes	\$1 - 5 Million	Not Available	Not Available	Not Available
Houston Municipal Employees	Yes	\$10 Million	\$50,000.00	\$77,000.00	\$1.4 Billion
Kansas PERS	No	N/A	N/A	N/A	\$8.7 Billion
Kentucky Retirement Systems	Yes	\$5 Million	\$25,000.00	\$33,038.00	\$26 Billion
LACERA	Yes	\$15 Million (Primary) \$10 Million (Excess)	\$100,000.00	\$102,000.00 \$36,900.00	\$25.9 Billion
Los Angeles Fire & Police	Yes	\$25 Million	Not Available	\$179,000.00	\$10 Billion
Massachusetts State Bd of Retirement (40 Boards participaing in plan)	Yes	\$30 Million	Not Available	\$38,000.00	Not Available
Michigan Public School Employees	No	N/A	N/A	N/A	Not Available

<u>Name of Fund</u>	<u>Fiduciary Insurance</u>	<u>Amount</u>	<u>each loss</u>	<u>Premium</u>	<u>Assets</u>
Michigan SERS	No	N/A	N/A	N/A	Not Available
Michigan JRS	No	N/A	N/A	N/A	Not Available
Michigan State Police	No	N/A	N/A	N/A	Not Available
Missouri Public Schools	Yes	\$5 Million	\$50,000.00	\$60,000.00	\$18.8 Billion
Missouri State Employees	Yes	\$5 Million	Not Available	Not Available	\$4.8 Billion
NY STRS	No	N/A	N/A	N/A	\$74.9 Billion
NY City ERS	No	N/A	N/A	N/A	\$54.5 Billion
Pennsylvania Public School Employees	Yes	\$25 Million	Not Available	Not Available	\$48 Billion
Pennsylvania SERS (3 year policy) Advised to expect 30% increase in 2003	Yes	\$15 Million (Primary) \$10 Million (Excess)	\$100,000.00	\$123,806.00	\$30 Billion
Philadelphia Municipal	No	Did have	Became too costly	N/A	\$4.5 Billion
South Carolina Retirement Systems	Yes	\$25 Million	75,000.00	\$103,320.00	\$20.7 Billion
Tacoma ERS (TERS) (2 year policy)	Yes	\$15 Million (Travelers)	\$25,000.00	\$68,775.00	\$750 Million (TERS \$120 Million (457)
West Virginia Investment Management Board	Yes	\$50 Million** \$25 Million**	Not Available Not Available	\$460,000.00 \$51,471.00	\$3.7 Billion
**(Both are 5 year policies for "Faithful Performance Bonds" for 1% of assets)					
Wisconsin Inv. Bd.	No	N/A	N/A	N/A	\$55.4 Billion

\* As of 9/30/01- *Pensions & Investments*